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SPECIAL FACTORS AFFECTING INDUSTRIAL DEVELOPMENT IN LESS DEVELOPED AREAS WITH SPECIAL REFERENCE TO UAR

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SPECIAL FACTORS AFFECTING INDUSTRIAL DEVELOPMENT IN LESS DEVELOPED AREAS WITH SPECIAL REFERENCE TO U.A.R.

No 380

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D.1.

1. In the process of raising the standard of living of their population, the developing countries meet several problems. In many cases, and in spite of the willingness to develop and even apart from the obstacles exerted by external pressure from circles whose interest is contrary to such development, developing countries have problems of their own; problems inherited by their economic and social conditions. Some of these problems are purely economical while others are social or institutional.

2. In UAR for example, it was the desire of imperialism that our country should remain an agricultural one. Generations used to learn, one generation after the other, that the land is the only source of wealth. In such an inherited social atmosphere, the State has found great difficulty in convincing wealthy people to explore new fields of investment and to use their money in industry. This factor is, by no means, of little importance. In our industrial experience we had - in several cases - to hold meetings with those who have available funds for investment to convince them of the benefits of industrial investment not only to themselves but to their country at large. In many cases we succeeded. New investors, previously reluctant to industrial investment, have found their way in this field. However, it was not an easy task.

3. The main economic obstacle, and the general one too, in the way of industrial development in our case is the low level of savings out of the national income which is, by itself, very low. As it is known, every does of investment needs an equal dose of savings. On the other hand, developing countries may be reluctant to impose restrictions on importations from abroad and this will lead to the depletion of foreign currency. But in order to start a programme for development, a special fund of foreign currency should be set aside and the intervention of the State to build up these reserves might be necessary.

4. In the first stage of our industrial development, it was found necessary, in order to encourage individuals to save and invest in industry, to follow a method of co-partnership in financing between the State and the individuals. This gave a sort of guarantee for individuals who were, by their very nature, reluctant to investment in industry.

5. Industrial development is, no doubt, the goal of all developing countries and it must be so since it is the economic sector which gives the highest returns to the national income and to the standard of living; yet there are certain fundamental elements on which sound development must be established This means that there are factors which restrict, more or less, the potentialities of developing countries for development in new fields and limit their possibilities in this connection.

6. The first factor in this respect is the availability of at least a great portion of the raw materials required for the establishment of industrial projects, because the establishment of industries which entirely depend on imported materials will, in many cases, subject these industries to large difficulties, Experience has proved that there are some raw materials in the developing countries which can be utilized in industry and yet, for some reasons, they had not been exploited for this purpose.

7. As mentioned before, the low size of savings constitutes another limiting factor in this connection. However this factor too, can be overcome by resorting to loans and credit facilities on a large scale. It has been proved, in many cases, that a successful industrial project which is established on sound basis can be self-financing in a few years. If this is the case, there will be no harm to developing countries if they resort to loans on condition that development projects are based on sound economic basis.

8. There is also an important problem that faces almost all developing countries, namely, the lack of local technical know-how which is only available in highly developed countries. Of course, other countries whose national wealth has been depending, for many years, on the primary operation of exploitation of land, forestry or mining, would not have the opportunity to build up any important group of technicians who can be relied upon in the establishment of development projects.

9. It should be stressed that the above mentioned obstacle imposes itself on developing countries in the different stages of development; whether it be in the first stage of planning, or in the second stage of execution or in the operation of the projects themselves after their erection. In all these stages, personnel of high technical abilities are required.

10. In UAR we were confronted by many obstacles of this sort. However, in the first stage, (planning) we have succeeded in overcoming the difficulty by mobilizing all the required qualifications available in the country. In the stage of execution, it was necessary to resort to technicians from abroad, so we had to bring along with the machinery and equipment imported the technicians and erectors required to do the job. With the help of young technicians from our country who had to assist these people, we were able to carry out the scheduled programme. In having foreign experts there is a sure benefit for developing countries since they offer a good opportunity for local personnel to be trained. In future, the local trained personnel could do similar jobs by themselves. In the third stage (operation) it was necessary too to have some foreign experts especially in

new industries in which we have no previous experience. In such cases, it should be a policy to attach local personnel to foreign experts in order to acquire, in few years, the experience needed for the operation of such projects.

11. Very close to the above subject, is the difficulty in securing managerial capacities. Contrary to the previous case of technical experience, imported managerial capacities are not, in all cases, accepted. For political and social reasons developing countries might prefer to have indigenous managerial personnel. This presents a very serious problem, since managerial capacities are not easily acquired. However, having this in mind, developing countries could always, ahead of time, arrange to acquire such capacities by special training courses. I wish to emphasize that securing these capacities must be thought of at the very first stage of planning.

12. Next comes another important factor. As the available resources of development are, by nature, limited in developing countries, the question of priorities, right from the beginning,

imposes itself on those who work out the programmes or plans of development. It is of course known that some factors have a given priority, at least from a theoretical point of view. But to base our comparison only on these theoretical factors might not necessarily lead us to very successful results. In drawing up our first industrial development plan we were faced with this problem. After a thorough study of our economic and social conditions and in the light of our available resources, we were able to designate the elements of priority. However, it was found out that all projects indicate, more or less, priority elements at different relative proportions, and this was not, of course, sufficient to evaluate the degree of importance for each project. Consequently, we had to adopt a new method based on quantitative terms in order to determine the importance of each project in relation to other projects, Annexe 1 explains the method used for the calculation of priorities.

13. The elements of priority may differ from one country to another, but we believe that the method followed can be applied in all cases. Of course, the weight of each element in the priority system could be decided upon according to the economic conditions of each country. In this connection too, the State has provided a study form for the economic and technical evaluation of industrial projects (Annexe 2). This form is used in the implementation of the policy of industrial planning in the country because, since the resources for development are limited, as we have mentioned before, then it becomes the duty of the developing countries not to approve industrial projects except if they are founded on sound basis of economical evaluation. In UAR, the Law of the Organization and Promotion of Industry was issued in 1958, having as a goal, the best utilization of the economic resources of the country. By this law industrial investment is subjected to the direction of the State. At the same time, the law furnishes all possible means of encouragement for industrial investment.

14. In the last stage of development, the developing countries confront many marketing difficulties whether local or foreign. It is quite natural that these countries face difficulties in foreign markets whether in obtaining the raw materials of the required specifications or in competing with highly developed countries with unknown products to foreign markets. This sort of difficulty is conceivable but what is not conceivable is the difficulty which encounters newly industrial products in the local market. However, this difficulty exists on account of some psychological and inherited factors which make the local consumer prefer the imported goods to which he has been accustomed for many years. This factor, psychological to some extent, is one of the most important problems which confronts local industrial production in developing countries. In many cases, it is necessary that restrictions should be imposed, even by compulsory methods, to divert the consumer's preference from imported to local products. Moreover, there are the interests of important merchants, importers and monopolists which contradicts the interest of the national economy. Since these developing countries have no access or experience in the international markets, they are liable to face many difficulties in disposing of their surplus industrial products.

15. One of the most determining factors in development programmes is the access of the developing country to foreign currency reserves. In fact, this factor determines whether development is possible or not. In the first stage of development, it is necessary, as a rule, to import all the machinery and equipment. This requires foreign currency. Development could then, be only achieved, primarily, within the limits of the available foreign currency. The main source of foreign currency in each country is, of course, limited by its cash reserves and its balance of payments proceeds. Since, in the first stage of development, the developing country would be still in need of considerable quantities of imported consumable goods, there will be only a minor surplus in its balance of payments not adequate for any important development programme. If we add to this the relatively heavy requirements of investment goods for the development programmes, the developing country will be in no position to meet all the foreign currency requirements from its normal trade transactions.

16. There are, of course, some outlets for these difficulties. One can resort to foreign loans if they are long-termed and can be refunded, together with their interests, from the production of the industrial products themselves. One can also utilize the foreign credit facilities on a large scale; as by such means, countries can obtain more of investment goods necessary for development projects. It is also possible to welcome foreign investments from developed countries on basis of effective partnership which realizes the interest of national economy.

17. In the planning of industrial projects themselves, a solution for the above problems can be found by giving priority in execution to those projects which will give a large excess of foreign currency or which result in a reduction of imported goods.

18. In our industrial programmes, priority in execution was given to many consumers' goods projects since these are more effective in saving foreign currency in a short period. Therefore we believe that it is not necessary to give priority in execution to basic industries as has been the way in some industrial plans.

19. In this respect, we should emphasize the tendency for inflation which usually accompanies development programmes. Care must be always exercised that the monetary policy should be wise and elastic enough to face inflationary effects since the existence of inflation increases the burdens of development and raises its costs.

20. One of the requirements of development is the elimination of rigidities which prevail the domaine of business in developing countries. Work procedures should be adapted to the requirements of industrial development. For example, the sectors of banking, public utilities, technical education, importation, exportation and labour, should be adjusted in parallel to the conditions imposed by industrial development.

21. Another problem which developing countries have to face is the solution of the controversy present in some cases between economic welfare and total welfare. Industrial development will certainly impose some restrictions on individuals whether in the domaine of consumption, importation, exportation or investment itself. Moreover, it happens, in many cases, that the prices of local products are higher than those of the corresponding imported ones especially in the early stage of development. All of this should be endured by the local consumer in order to attain the ultimate objectives of the industrial development.

22. One of the annoyances which development programmes impose is the intervention of the State or public bodies in the economic behaviour of individuals. Planning is naturally required in economic societies of limited resources. Investors will suffer to a certain degree. Both investors and consumers will bear some of the consequencies of these conditions.

23. Developing countries are in persisting need for foreign aid whether financial or technical. Highly developed countries should not hesitate to offer this aid since by such cooperation, the developed countries will contribute to the welfare of a great portion of world population.

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